

Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-14 ISO-00 CIAE-00 DODE-00
NSAE-00 NSCE-00 SSO-00 USIE-00 INRE-00 AID-05
EB-07 FRB-01 INR-07 XMB-04 OPIC-06 SP-02 LAB-04
EPG-02 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01
L-03 H-02 PA-02 PRS-01 EURE-00 /119 W
-----037817 131638Z /43

O R 131557Z JUL 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 6046
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY DUBLIN
AMEMBASSY NEW DELHI
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL BELFAST
AMCONSUL EDINBURGH
USMISSION GENEVA
USDOC WASHDC

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USEEC ALSO FOR EMBASSY
USOECN ALSO FOR EMBASSY
USMTN

DEPARTMENT PASS FEDERAL RESERVE BOARD

TREASURY FOR DONALD E. SYVRUD, OASIA

E.O. 11652: N/A
TAGS: ECON, UK
SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD JULY 7 - 13
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SUMMARY: REVISED DATA UNDERLINE THE CONTINUING DROP IN
REAL INCOMES AND THE SLOWING OF FIRST QUARTER ECONOMIC
ACTIVITY. HOWEVER, WHOLESALE PRICE INCREASES SLOWED IN
JUNE WITH RAW MATERIALS PRICES DECLINING FOR THE SECOND
MONTH. THE BRITISH PETROLEUM STOCK SALE AND FOREIGN
BORROWING IN ITS OWN NAME BY THE BRITISH NATIONAL OIL

COMPANY LED TO A SIGNIFICANT REDUCTION IN THE JUNE CENTRAL GOVERNMENT BORROWING REQUIREMENT. DESPITE UNCERTAINTY OVER PAY POLICY, STERLING REMAINED STEADY ON FOREIGN EXCHANGES. END SUMMARY

1. WHOLESALE PRICES. WHOLESALE PRICES SHOW SIGNS OF MODERATING. IN JUNE, THE INDEX OF WHOLESALE PRICES (1970 EQUALS 100) OF RAW MATERIALS AND FUELS (INPUTS) FELL BY 1.0 PERCENT WHILE THAT OF GOODS EX-FACTORY (OUTPUTS) ROSE BY A SIMILAR AMOUNT. THE INPUT INDEX FELL TO 345.1 FROM A REVISED MAY FIGURE OF 348.2. REFLECTING A STABLE POUND AND DECLINING WORLD COMMODITY PRICES, INPUT PRICES FELL BY 0.6 PERCENT BETWEEN MARCH AND JUNE. AS A RESULT THE ANNUAL RATE OF INCREASE IN THIS INDEX WHICH STOOD AT 29.2 PERCENT IN JANUARY, IS CURRENTLY 15.2 PERCENT.

THE OUTPUT INDEX ROSE TO 262.6 FROM A REVISED 259.7 IN MAY. WHILE THE 1.0 PERCENT INCREASE IN JUNE IS A CONSIDERABLE IMPROVEMENT FROM THE RISES OF 1.8 AND 1.7 PERCENT IN APRIL AND MAY, IT STILL PUTS WHOLESALE PRICES FOR GOODS EX-FACTORY 21.0 PERCENT ABOVE THEIR LEVEL OF JUNE 1976. THE STRENGTH OF WHOLESALE PRICES IN RECENT MONTHS HAS BEEN SOMEWHAT SURPRISING GIVEN THE SLACKNESS IN OVERALL ACTIVITY. PRESS COMMENTATORS HAVE OPINED THAT FIRMS HAVE INCREASED PRICES EITHER IN ANTICIPATION OF HIGHER LABOR COSTS OR THE CHANGE IN ADMINISTRATION OF PRICE CONTROLS DUE ON AUGUST 1.

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2. OUTPUT AND INCOMES. REVISED GDP DATA INDICATE THAT THE AVERAGE LEVEL OF ECONOMIC ACTIVITY FELL BY 0.8 PERCENT DURING THE FIRST QUARTER OF 1977. THE FOLLOWING TABLE SUMMARIZES THE EXPENDITURE, INCOME AND OUTPUT-BASED INDICES AND THEIR AVERAGE WHICH ARE USED TO MEASURE MOVEMENT IN GDP:

	(L970 EQUALS 100)			
	EXPENDITURE	INCOME	OUTPUT	AVERAGE
1976-I	111.0	108.3	108.1	109.1
II	108.2	108.8	107.7	108.2
III	109.2	108.2	107.6	108.3
IV	111.3	109.2	109.3	110.0
1977-I	109.6	107.8	109.8	109.1

THE LATEST FIRST QUARTER FIGURES CONTAIN DOWNWARD REVISIONS OF 0.5 AND 1.7 PERCENT RESPECTIVELY IN THE EXPENDITURE AND INCOME INDICES WHILE THE OUTPUT MEASURE IS UNCHANGED.

INITIAL ESTIMATES OF FIRST QUARTER PERSONAL INCOME, EXPENDITURE AND SAVINGS SHOW A FURTHER SUBSTANTIAL DE-

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L-03 H-02 PA-02 PRS-01 EURE-00 /119 W
-----037888 131637Z /43

O R 131557Z JUL 77
FM AMEMBASSY LONDON
TO SECSTATE WASHDC IMMEDIATE 6047
TREASURY DEPT WASHDC IMMEDIATE
INFO AMEMBASSY BONN
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CLINE IN REAL DISPOSABLE PERSONAL INCOME. THE FOLLOWING
TABLE SHOWS THE PERCENTAGE CHANGES IN THE MAIN COMPONENTS
OF NATIONAL INCOME OVER THE LATEST 4 QUARTERS AND THE PER
CENTAGE CHANGE EXPRESSED AT AN ANNUAL RATE BETWEEN 1976

IV AND 1977 I. PERCENTAGE CHANGE

	1976 I-1977 I	1976 IV 1977 I
WAGES AND SALARIES	10.9	10.3
GOVERNMENT TRANSFER		
PAYMENTS	14.7	22.1

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OTHER PERSONAL INCOME	10.6	10.0
TOTAL PRETAX PERSONAL		
INCOME	11.6	10.8
TOTAL DISPOSABLE PER-		
SONAL INCOME	11.1	10.8
TOTAL REAL DISPOSABLE		
INCOME	- 3.3	- 7.0

CONSUMER PRICE DEFLATOR	14.8	18.3
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IT IS APPARENT THAT ONLY THOSE PEOPLE RECEIVING GOVERNMENT TRANSFER PAYMENTS CAME ANYWHERE NEAR MATCHING THE 14.8 PERCENT RISE IN THE CONSUMER PRICE DEFLATOR DURING THE 12 MONTHS TO MARCH 1977. WAGE AND SALARY EARNERS EXPERIENCED A PRETAX DECLINE OF 3.9 PERCENT IN THE REAL VALUE OF THEIR EARNED INCOMES. THIS PATTERN CONTINUED BETWEEN THE L976 IV AND 1977 I WHEN THE CONSUMER PRICE DEFLATOR INCREASED AT AN ANNUAL RATE OF 18.3 PERCENT.

THE SAVINGS RATIO ROSE SLIGHTLY IN THE FIRST QUARTER OF 1977. IT WAS ESTIMATED AT 12.6 PERCENT OF DISPOSABLE PERSONAL INCOME COMPARED WITH 12.1 PERCENT (REVISED FROM 11.6 PERCENT) IN THE PREVIOUS QUARTER.

DISAGGREGATED REAL CONSUMER EXPENDITURE FIGURES SHOW THAT THE 2.3 PERCENT DECLINE WAS UNEVENLY DISTRIBUTED. EXPENDITURE ON ALCOHOLIC BEVERAGES, TOBACCO AND ELECTRICAL GOODS FELL VERY SHARPLY WHILE SPENDING ON CARS AND SHOES WAS HIGHER.

3. CENTRAL GOVERNMENT FINANCIAL TRANSACTIONS. THE CENTRAL GOVERNMENT BORROWING REQUIREMENT NARROWED SHARPLY IN JUNE AS THE PROCEEDS FROM THE SALE OF BRITISH PETROLEUM (BP) STOCK AND A CHANGE IN THE TIMING OF PAYMENTS TO LOCAL GOVERNMENT AUTHORITIES ENABLED HMG TO REDUCE ITS DEMANDS ON CREDIT MARKETS. THE FOLLOWING TABLE SUMMARIZES THE LATEST DATA.

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POUNDS MILLION

1977-78

CONSOLIDATED	BUDGET	1 APR.-30 JUNE	JUNE
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FUND	FORECAST	1976	1977	1976	1977
REVENUE		37,742	7,496	8,709	2,357
EXPENDITURE		43,489	9,472	10,267	3,680
DEFICIT (-)		-5,747	-1,976	-1,558	-1,323

NATIONAL LOANS

FUND (1)

CONSOLIDATED FUND

DEFICIT (-)	-5,747	-1,976	-1,558	-1,323	- 460
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OTHER TRANSACTIONS:

RECEIPTS	5,300	807	1,094	249	193
PAYMENTS (-)	-7,188	-1,250	-1,666	- 274	- 73

TOTAL NET BORROWING

BY THE NATIONAL

LOANS F.ND (-) -7,635 -2,419 -2,130 -1,348 - 340

OTHER FUNDS AND

ACCOUNTS 776 211 297 180 314

CENTRAL GOVERNMENT BORROWING

REQUIREMENT (.) -6,859 2,208 -1,833 -1,168 - 26

(1) - EXCLUDING NATIONAL DEBT AND OTHER TRANSACTIONS CONCERNED WITH THE FINANCING OF THE BORROWING REQUIREMENT.

REVENUES WERE 20.5 PERCENT HIGHER THAN IN JUNE 1976 WHILE EXPENDITURE DECLINED BY 10.3 PERCENT. THE REVENUE FIGURE INCLUDES THE 150 MILLION POUND FIRST TRANCHE OF THE PROCEEDS FROM THE SALE OF BP STOCK. DURING THE FIRST QUARTER OF THE FISCAL YEAR INTEREST PAYMENTS ON THE NATIONAL DEBT INCREASED TO 425 MILLION POUNDS COMPARED WITH 155 MILLION A YEAR EARLIER. THIS RISE WAS CAUSED BY THE FIRST SEMI-ANNUAL INTEREST PAYMENT ON THE LARGE SALE OF GOVERNMENT DEBT MADE BETWEEN NOVEMBER 1976 AND JANUARY 1977.

H THE JUNE FIGURES WERE ALSO AIDED BY A 98 MILLION POUND NET REPAYMENT TO THE NATIONAL LOANS FUND. A MAJOR TRANSACTION IN THIS CATEGORY WAS A 340 MILLION POUND REPAYMENT

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BY THE BRITISH NATIONAL OIL COMPANY FOLLOWING ITS RECENT BORROWING IN THE U.S.

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O R 131557Z JUL 77

FM AMEMBASSY LONDON

TO SECSTATE WASHDC IMMEDIATE 6048
 TREASURY DEPT WASHDC IMMEDIATE
 INFO AMEMBASSY BONN
 AMEMBASSY BRUSSELS
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4. STERLING HELD IN A FAIRLY NARROW RANGE THIS WEEK, AL-
 THOUGH WAS UNDER SOME PRESSURE ON MONDAY. FOREIGN EX-
 CHANGE DEALERS REPORT THE UNIONS' ATTITUDE TOWARDS PAY
 POLICY WAS A FACTOR BEHIND WIDENING FORWARDS LAST WEEK
 AND PRESSURE ON SPOT THIS WEEK. ONE SOURCE SAID "IN
 GENERAL, SENTIMENT IS NOT GOOD, BUT THE BANK OF ENGLAND
 SHOULD BE ABLE TO COPE WITH WHATEVER PRESSURE APPEARS
 THIS WEEK."

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5. EXCHANGE RATE AND GOLD EFFECTIVE

EXCHANGE RATE

EXCHANGE (DEC. 1971 GOLD

DATE	RATE (\$	EQUALS 100)	(\$)
7/6	1.7207	61.1	140-7/8
7/7	1.7200	60.9	141-5/8
7/8	1.7195	60.9	142-1/8
7/11	1.72U0	60.7	141.3/8
7/12	1.7200	61.0	141-7/8

CHANGE 7/5-7/12 DOWN 0.0005 UNCHANGED UP 1/2

6. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/6	0.40	1.50	3.30
7/7	0.52	1.65	3.58
7/8	0.40	1.60	3.57
7/11	0.52	1.73	3.75
7/12	0.52	1.73	3.82

CHANGE 7/5-7/12 WIDEN 0.12 WIDEN 0.38 WIDEN 0.62

(ALL FIGURES IN CENTS)

7. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/6	5-1/4	5-5/8	6
7/7	5-5/8	5-7/8	6-1/4
7/8	5-7/8	5-7/8	6-1/8
7/11	5-7/8	5-7/8	6-1/8
7/12	5-5/8	5-7/8	6-1/8

CHANGE 7/5-7/12 UNCHANGED UNCHANGED UNCHANGED

8. THREE-MONTH LONDON INTERBANK - EURODOLLAR INTEREST

RATE DIFFERENTIAL

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DATE	
7/6	2-5/32
7/7	1-29/32
7/8	1-7/8
& 7/11	1-31/32
7/12	2-1/32

CHANGE 7/5-7/12 WIDENED 5/32

9. STERLING CERTIFICATES OF DEPOSIT

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/6	7-3/16	7-11/16	8-27/64
7/7	7-1/4	7-3/4	8-9/16
7/8	7-3/16	7-23/32	8-9/16
7/11	7-3/16	7-3/4	8-9/16
7/12	7-7/32	7-13/16	8-45/64

CHANGE 7/5-7/12 UNCHANGED UP 5/32 UP 21/64

10. THE MINIMUM LENDING RATE WAS UNCHANGED AT 8 PERCENT AFTER FRIDAY'S TREASURY BILL AUCTION. THE AVERAGE TREASURY BILL RATE ROSE 0.0078 PERCENT TO 7.4580 PERCENT, AT THE JULY 8 AUCTION AS THE 350 MILLION POUNDS IN BILLS TENDERED ATTRACTED 872.98 MILLION POUNDS IN BIDS. THIS WEEK 300 MILLION POUNDS IN BILLS WILL MATURE AND A SIMILAR NUMBER WILL BE OFFERED.

BREWSTER

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Message Attributes

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Channel Indicators: n/a
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Sent Date: 13-Jul-1977 12:00:00 am
DecapTION Date: 01-Jan-1960 12:00:00 am
DecapTION Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
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Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
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Format: TEL
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770763/aaaacchu.tel
Line Count: 376
Litigation Code IDs:
Litigation Codes:
Litigation History: Hold (001 Tobacco) added on 4/16/2009 3:39:06 PM by WASHDCMcGoldRJ, Hold (001 Tobacco) removed on 4/16/2009 3:45:04 PM by WASHDCMcGoldRJ (Litigation Hold Lifted)
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Message ID: bef9576c-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 21-Dec-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1879633
Secure: OPEN
Status: NATIVE
Subject: ECONOMIC DEVELOPMENTS FOR PERIOD JULY 7 - 13 UNCLASSIFIED UNCLASSIFIED
TAGS: ECON, UK
To: STATE TRSY MULTIPLE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/bef9576c-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009